

ORDER NO. 15 049

ENTERED: FEB 20 2015

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1635 Phase II & UM 1706

In the Matters of

NORTHWEST NATURAL GAS COMPANY,
dba NW NATURAL,

Mechanism for Recovery of
Environmental Remediation Costs (UM 1635)

and

Request for Determination of the Prudence
of Environmental Remediation Costs for
the Calendar Year 2013 and the First Quarter
of 2014 (UM 1706)

ORDER

DISPOSITION: ENVIRONMENTAL REMEDIATION MECHANISM
ADOPTED; DOCKET NO. UM 1706 STIPULATION ADOPTED

I. INTRODUCTION

In this order, we resolve Northwest Natural Gas Company's request for recovery of environmental remediation costs associated with cleanup efforts related to the historic operation of manufactured gas plants (MGP). We resolve issues related to \$94.3 million in expenses deferred from 2003 through 2012, as well as the estimated \$98 to \$350 million in additional remediation expenses the company will incur over the next 20 years.

We find that, with the exception of \$33,400, NW Natural's remediation expenses through March 31, 2014, were prudently incurred. We also adopt the parties' joint recommendations, presented in their initial stipulation, regarding rate spread and interstate allocation.

We allocate the \$150.5 million NW Natural has received in insurance proceeds across the entire estimated period of the remediation project, and apply one-third of those amounts to the current deferral balance and two-thirds to offset future expenses.

For future remediation expenses, we use approximately \$5 million per year, plus interest, in insurance proceeds to offset remediation expenses, and authorize NW Natural to collect, through a tariff rider, an additional \$5 million of expenses in base rates going forward. For remaining deferred amounts, Commissioners Savage and Bloom adopt an

earnings test that includes examination of 100 percent of NW Natural's Weighted Adjusted Cost of Gas (WACOG) earnings and 50 percent of AMA Optimization revenues, and requires the company to offset each year's deferred amounts with any earnings above its authorized return on equity (ROE) for that year. Expenses eligible for recovery will be placed in and collected through NW Natural's Site Remediation Recovery Mechanism. Chair Ackerman dissents, and argues for a less restrictive earnings test.

For existing deferrals, we apply \$50.2 million of the insurance proceeds to reduce the deferral balance to \$44.2 million. For this remaining balance, Commissioners Ackerman and Bloom determine that NW Natural should amortize in rates all but \$15 million of the deferral balance. Commissioner Savage dissents, and argues that the company should bear a higher amount.

We will revisit our decisions regarding the deferral and amortization of future remediation expenses, as well as the treatment of remaining insurance proceeds, in three years, or when NW Natural obtains greater certainty regarding its future remediation costs, whichever occurs first.

II. BACKGROUND

From the mid-1800s through 1956, NW Natural's predecessor, PG&C, manufactured gas at two locations: the Portland Gas Manufacturing facility (PGM) in downtown Portland, which operated from 1860 to 1913, and the Gasco facility, downstream of PGM, which operated from 1913 to 1956. The by-products and wastes from the processes used to manufacture gas at the two sites contaminated the soil, groundwater, and surface waters surrounding the sites.

Both the Oregon Department of Environmental Quality (DEQ) and Federal Environmental Protection Agency (EPA) have required NW Natural to take a number of environmental remediation actions, most of which are on-going. The company is currently managing projects at a number of sites, and has incurred remediation costs of over \$100 million to date.¹ After a number of years pursuing insurance funds from companies regarding the costs of the remediation activities, the company has received a cumulative total of approximately \$150.5 million in insurance payments.²

¹ The company is currently managing remediation projects at the following sites: the Portland Harbor Site, the PGM Site, the Gasco Site, and the Siltronic Site. *See* Docket No. UG 221, NWN/1300, Wyatt/4-5. A more extensive summary of the historical background leading to NW Natural's request for deferral of environmental remediation costs can be found in the testimony of NW Natural witnesses Robert Wyatt and Andrew Middleton in this docket and in Docket No. UG 221. *See* Docket UM 1635, NWN/200 (Wyatt), NWN/400 (Middleton); Docket No. UG 221, NWN/1300 (Wyatt).

² There is a single remaining insurer from whom the company may collect additional insurance proceeds. The insurer is insolvent; the company is working with the insurer's liquidator regarding possible insurance proceeds.

III. RELATED COMMISSION PROCEEDINGS

We have addressed NW Natural’s recovery of its environmental remediation expenses in various proceedings, including an earlier phase in this docket. To provide context for our discussion, we begin with a brief summary of our earlier proceedings and decisions.³

A. Docket UM 1078

In 2003, NW Natural sought approval under ORS 757.259(2)(e) to defer environmental remediation expenses, namely investigation, study, oversight, and likely remediation costs, associated with a series of environmental remediation projects. NW Natural requested authorization to record its remediation costs and any offsetting insurance proceeds in deferred accounts, with the intent to consider their ratemaking treatment after the magnitude of the costs and insurance recovery were known. Staff supported the request, noting that adoption of a deferred account was appropriate in order to minimize the frequency of rate changes or fluctuation of rate levels. We approved the request in Order No. 03-328 for a twelve-month period, and have renewed the deferred account each year since then. Because NW Natural was unable to determine the extent of environmental costs or related insurance recovery, we granted the deferral under ORS 757.259(2)(e), the statutorily created exception to our general prohibition against retroactive ratemaking.⁴

B. Docket UG 221

In its 2011 general rate case filing, NW Natural sought to amortize \$64.5 million of environmental remediation costs the company had incurred as of September 30, 2011. This amount included \$51.8 million of total expenditures to date, plus accrued interest of \$18.1 million, partially offset by \$5.4 million of environmental costs expensed in prior years. At that time, NW Natural estimated an additional \$58 million in future remediation costs, and had recorded on its books a regulatory asset related to environmental costs of \$122.5 million. NW Natural proposed that the Commission adopt a Site Remediation Recovery Mechanism (SRRM), under which one-fifth of prudent deferred expenses, after any offsets, would be put into an account for amortization, with any under or over

³ We addressed NW Natural’s recovery of environmental costs related to its Gasco plant separately, and do not summarize those proceedings here. See Docket No. UG 263, Order No. 13-393 (Oct 29, 2013) (reinstating Schedule 184 as “Special Rate Adjustment Gasco Upland Pumping Station,” and applying permanent rate effects associated with recovery of the capital costs associated with the Gasco plant, subject to refund); Order No. 14-077 (Mar 5, 2014) (adopting a stipulation finding approximately \$19 million in capital costs were prudently incurred and determining other ratemaking treatments associated with those amounts).

⁴ ORS 757.259(2) provides that “[u]pon application of a utility or ratepayer or upon the commission's own motion * * * the commission by order may authorize deferral of the following amounts for later incorporation into rates:

* * * (e) Identifiable utility expenses or revenues, the recovery or refund of which the commission finds should be deferred in order to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne by and benefits received by ratepayers.”

collection being used to adjust the amount amortized into rates in the next amortization period.⁵

We addressed the request in Order No. 12-437. Regarding amortization, we approved certain elements of NW Natural's requested SRRM, ordering that each year one-fifth of the company's deferred expenses (offset by any proceeds received) be put into an account for amortization during the November 1 through October 31 period, after an opportunity for a prudence review. We declined to adopt a sharing mechanism, but determined that an earnings test would be applied prior to any deferred amounts being placed in rates. We also determined what interest rates should be applied to the deferred amounts.⁶ Finally, we opened this docket, UM 1635, to address the prudence of the deferred environmental costs, and directed the parties to develop an appropriate earnings test to be used prior to the placement of any deferred costs into rates, as required by ORS 757.259(5).⁷

C. UM 1635 – Phase I

Following the filing of testimony and settlement conferences, the parties filed two stipulations intended to resolve all disputed issues related to NW Natural's recovery of its remediation expenses. In their stipulations, the parties agreed that all but \$33,400 of the approximately \$97.6 million total net environmental remediation expenses incurred by NW Natural through December 31, 2012 were prudently incurred. Of that amount, the parties proposed that \$7 million would be borne by shareholders, and the remaining amount, after applying \$40.7 million in insurance proceeds and a reduction of the \$33,400 found to be imprudent, would be amortized in rates through the SRRM.

For amounts deferred on or after January 1, 2013, the parties proposed an earnings test for remediation expenses on an annual basis that permitted NW Natural to credit to the balance of the SRRM a portion of the remediation expenses deferred each year, with the amount credited dependent on whether the company's results of operations showed earnings less than, at, or above authorized ROE for that year. The parties also agreed that future insurance proceeds would be credited against amounts approved for amortization in the SRRM in equal amounts over ten years following receipt of the funds.

In Order No. 13-424, we declined to adopt the parties' stipulations. We concluded that the stipulations did not fairly resolve whether and how NW Natural's environmental remediation costs would be shared with customers, and found that a disallowance of \$7 million was too low. We further concluded that the issues merited a more thorough examination of the facts and public policy considerations, and directed the parties to file additional testimony for Phase II of these proceedings.

⁵ See Docket No. UG 221, NW Natural's Prehearing Brief at 21; NWN/1500; NWN/1701, Schedule 183.

⁶ We adopted the following rates of return for the deferred amounts: Deferred costs that have not been reviewed for prudence will accrue interest at the company's rate of return. Amounts that have been moved into an amortization account each year will accrue interest at the modified blended treasury rate (MBTR). Amounts that have been reviewed for prudence, but have not yet been moved into an amortization account, will accrue interest at the average of the five-year Treasury rates used in calculating the MBTR for the applicable year, with an added 100 basis points. See Order No. 12-437 at 31-32 (Nov 16, 2012).

⁷ We take Official Notice of the record in Docket No. UG 221.

During the course of the Phase II proceedings, NW Natural reached settlements with insurance companies regarding the recovery of remediation costs from the historical manufactured gas facility operations. With the newly settled amounts, NW Natural has received a cumulative total of approximately \$150.5 million in insurance payments, of which \$113 million was received in 2013-2014.

D. Docket UM 1706

On May 15, 2014, NW Natural filed a request for determination of the prudence of its environmental remediation costs for the calendar year 2013 and first quarter of 2014. On December 31, 2014, the parties filed a stipulation finding that the \$24.77 million in environmental site remediation costs that the company incurred from January 1, 2013 to March 31, 2014 were prudently incurred costs. The parties recommended that these amounts be reflected in rates through NW Natural's SRRM, set forth in Schedule 183.⁸ We consolidate docket UM 1706 with this docket, and address the parties' UM 1706 stipulation in this order.⁹ The stipulation is attached as Appendix A.

IV. UM 1635 – PHASE II

We provide a three-part resolution to the issues presented in this docket. First, we discuss issues on which all three Commissioners agree. These issues are: (1) prudence; (2) rate spread and interstate allocation; (3) demarcation of time periods; (4) allocation of insurance proceeds and the applicable interest rate; and (5) prudence of remediation expenses incurred during 2013 and first quarter 2014.

Second, we resolve issues related to the deferral and amortization of future remediation expenses—that is, expenses incurred from 2013 onward. For these future expenditures, Commissioners Savage and Bloom form a majority opinion adopting a mechanism for cost recovery, while Chair Ackerman dissents, finding that the majority's resolution undermines important regulatory incentives.

Third, we address amortization of past deferrals—that is, expenses incurred from 2003 through 2012. For these deferred costs, Commissioners Ackerman and Bloom form a majority opinion resolving that NW Natural should be allowed to amortize in rates all but \$15 million of the \$94.7 million deferrals, less a portion of insurance proceeds. For this past period, Commissioner Savage dissents, finding that the company should bear a higher amount of incurred remediation costs.

⁸ See Docket No. UG 221, Order No. 12-408 at 5-6 (Oct 26, 2008); Order No. 12-437 at 31-32.

⁹ The stipulating parties in the UM 1706 stipulation are NW Natural, CUB, and NWIGU.

A. Points of Agreement

All three Commissioners agree on the following issues.

1. Prudence

After reviewing the record in this docket, we agree with the parties that NW Natural's environmental remediation spending was both required by current environmental regulations, and appropriate to address the environmental consequences of the company's predecessors' activities. We note that MGPs were a part of regulated operations at the time the events leading to the remediation occurred, and that no party contests the prudence of the company's management of its cleanup obligations. Other than the \$33,400 in expenses that Commission Staff found to be imprudent, we find the company's environmental remediation spending through December 31, 2012 to have been prudently incurred. Addressing docket UM 1706, we also conclude that the company's costs incurred from January 1, 2013 to March 31, 2014 were prudently incurred.

2. Rate Spread and Interstate Allocation

In their initial stipulation, the parties agreed that the SRRM rate spread allocation should be based on an equal percent of margin basis, reflecting the final rate allocation in docket UG 221. The parties agreed that the basis for calculating the rate spread would not change during the time the SRRM was in effect, and that refunds or reduced charges resulting from insurance would be allocated using the same basis for all customers.

We adopt the parties' initially proposed rate spread allocation. We also adopt the parties' initially agreed-upon interstate allocation, which relies on historic operations to determine the allocation of costs between Oregon and Washington.

3. Demarcation of Time Periods

We adopt Staff's recommendation that we consider two time periods for remediation expenses. We use a cut-off date of December 31, 2012, to demark the two periods. This provides us with a clear ten-year historical period, from 2003 through 2012. Amounts incurred after that date, including the costs from 2013 and the first quarter of 2014, at issue in docket UM 1706, will be treated as future costs.

4. Allocation of Insurance Proceeds and Applicable Interest Rate

We agree with Staff, the Citizens' Utility Board of Oregon (CUB), and the Northwest Industrial Gas Users (NWIGU), that intergenerational equity favors allocating the \$150.5 million in insurance proceeds across the entire estimated period of the remediation project. Accordingly, we conclude that one-third of the insurance proceeds should be allocated to the past period of incurred costs, and two-thirds of insurance proceeds be applied to the future period. This results in approximately \$50.2 million being used to offset the past period deferrals, and the allocation of roughly \$5 million a year, plus interest earned on the balance each year, for the remaining estimated 20 years of the project. Any remaining funds will be used to offset costs at the end of the project.

We do not adopt any of the parties' arguments regarding which interest rate should be applied to the insurance proceeds.¹⁰ Instead, we direct NW Natural to hold the insurance proceeds in a secure account, with interest accruing at the highest rate the company is able to obtain while reasonably minimizing the risk to principal. Interest accrued on insurance proceeds in the previous twelve months will be applied to remediation costs each year. When NW Natural has established the account, the company should notify the Commission for review and acknowledgement.

As we note below, we will review this decision in three years, or when NW Natural achieves greater certainty regarding its future remediation costs, whichever occurs first.

5. Remediation Expenses Incurred from January 1, 2013 through March 31, 2014

As we noted earlier, the parties filed a stipulation in docket UM 1706 recommending that we find prudent NW Natural's remediation costs for calendar year 2013 and the first quarter of 2014. We adopt the parties' stipulation, and order that these remediation expenses be subject to the future earnings test we adopt in this order and reflected in rates through the SRRM.

B. Future Environmental Remediation Costs: 2013 Onwards

NW Natural estimates that it will incur between \$98 million and \$350 million in additional remediation expenses over the next 20 years. We begin with a brief summary of the parties' arguments, followed by the majority resolution and Chair Ackerman's dissenting opinion.

1. Positions of the Parties

a. NW Natural

NW Natural proposes to recover future expenses through the SRRM with an earnings test requiring the company to offset environmental expenses with any earnings that are more than 100 basis points over authorized ROE. NW Natural argues this earnings test comports with three important policy considerations because it: (1) is tailored to the nature of the actual costs to which it is being applied, (2) fairly and reasonably balances customers' and the company's interests, and (3) does not undermine the carefully crafted incentives this Commission has adopted for the company. NW Natural argues that the remediation expenses at issue here will be substantial in amount and long-term in nature, and that an earnings test should be designed to retain the company's opportunity to earn more than its authorized ROE. NW Natural compares this docket to others in which the

¹⁰ See Staff/200 at 6 (arguing that insurance proceeds should be held by the company in an account that accumulates interest at the company's authorized rate of return, paralleling the rate at which deferral costs accrue interest); NW Natural Closing Brief at 10-11 (agreeing with Staff that insurance proceeds and remediation expenses should accrue interest at the same rate, but noting that remediation expenses accrue interest at the authorized rate of return only until they reviewed for prudence, and then at a lower rate when they are in amortization).

Commission approved the use of balancing accounts and specific tariff riders to ensure that utilities recover their decommissioning and remediation costs in their entirety, without being subject to any earnings test or sharing, even when plants were no longer in service.¹¹

NW Natural contends that adopting a lower threshold for an earnings test will harm the long-term interests of the company and its customers. Because the SRRM will last for so many years, NW Natural argues that an overly restrictive earnings test could materially impact the company's ability to earn a reasonable return over the long-term and could negatively affect its risk profile. Moreover, the company states that setting an earnings cap at or below its authorized ROE will undermine Commission incentives that benefit ratepayers. The company notes that the purchased gas adjustment (PGA) mechanism, as currently designed, allows a local distribution company to retain, at its election, either 10 or 20 percent of the commodity cost savings (or increased costs) resulting from its gas procurement activities. If the earnings threshold is not set at the same level elected by NW Natural for the PGA, the company argues that there is a high likelihood that it will have to use its commodity cost savings to pay remediation expenses, compromising its incentive to minimize gas costs.

NW Natural also opposes any sharing of remediation costs with its shareholders. NW Natural emphasizes that we rejected sharing proposals in docket UG 221, and argues that there is no need for additional sharing to incent prudent cost management because the type of work required will be dictated by federal and state agencies, and because remediation expenses are typically paid by customers without sharing.¹² NW Natural also argues no future remediation expenses should be included in base rates going forward because they will be difficult to forecast and are outside the company's control. At a minimum, NW Natural requests that the Commission wait until the EPA issues its Record of Decision, to enable the company to more accurately forecast expected remediation expenses.

b. Staff

For future remediation costs, Staff recommends an annual earnings test using revenues, including 100 percent of WACOG and 90 percent of AMA Optimization revenues. Staff would use insurance proceeds to reduce remediation costs for each year by \$5 million, plus accumulated interest. Of the remediation costs remaining at that point, Staff recommends 10 percent be allocated to shareholders to ensure NW Natural has an incentive to control costs, and the remaining 90 percent be paid by customers through the SRRM.

¹¹ NW Natural Pre-Hearing Brief at 10-11, citing Order No. 11-204 (approving PGE's use of balancing account to recover decommissioning costs associated with Bull Run Hydro Plant); Order No. 12-493 (approving stipulation allowing PacifiCorp to recover decommissioning costs for Carbon plant); Order No. 07-375 (allowing PacifiCorp to record decommissioning costs for its Powerdale plant with provisions for a final true-up for actual expenditures); Order No. 11-242 (allowing recovery of decommissioning costs for Boardman plant for PGE, with a special tariff); Order No. 12-235 (approving stipulation for Idaho Power's Boardman decommissioning costs that allows Idaho Power to recover remediation expenses from customers without an earnings review).

¹² Order No. 12-437 at 31-32.

Staff recommends that recovery of future remediation expenses be capped at NW Natural's authorized ROE. Staff acknowledges that this cap is higher than the earnings test Staff recommends for past years, but explains it is reasonable with its proposed 90/10 sharing of costs before the earnings test is applied. Staff explains that NW Natural could still earn above authorized ROE if its earnings are high enough to absorb the remediation costs less the insurance proceeds and customer tariff rider.

Staff also recommends that we place in base rates going forward \$3 to \$5 million annually in the form of a tariff rider. Staff recommends a conservative amount to offset deferred costs on an annual basis and to help prevent the accumulation of an excessively large deferral balance.

c. CUB

CUB asserts that NW Natural should not receive risk-free dollar for dollar recovery of costs that should have been recovered during the time the company was causing pollution, and argues that NW Natural is asking for customers to absorb all costs up to the point where NW Natural is earning more than 100 basis points over ROE, which is a better deal than in a rate case. CUB maintains that, because deferrals are one-sided, they should not be more generous than the recovery a utility would obtain in a rate case.

CUB proposes we consider this docket in conjunction with docket UM 1654, NW Natural's Mist Storage and Optimization docket. CUB proposes that we first identify net income associated with Mist storage and optimization (excluding income resulting from activities that do not arise out of a former production facility). Under this proposal, NW Natural would be allowed its authorized rate of return on its investment in Mist storage and optimization, but everything above the allowable rate of return would be used to offset environmental liabilities. The costs of environmental remediation, and the net revenues from Mist storage and optimization, would be placed in a balancing account to offset each other, until the balancing account had enough revenue to cover expected remaining costs. CUB argues that NW Natural should not get to reap the benefits of a former production facility, while leaving the liabilities associated with the former production facilities on customers.

CUB notes that NW Natural's comparison of its remediation costs to plant decommissioning costs fails, because at the time of their closure and resulting remediation, the investments at issue were all operational and were still serving and benefiting present-day customers. CUB notes that the Commission has routinely interpreted decommissioning costs to apply to costs incurred from transitioning a plant currently or recently serving customers to shutdown.

d. NWIGU

NWIGU recommends we establish a balancing account, and build an annual amortization expense into base rates. Under NWIGU's proposal, NW Natural would project its remediation expenditures over the next five years to approximate an average annual expenditure, with 90 percent of the expenditure to be included in the annual amortization expense allocated to customers. The amount of deferred remediation costs in the tracking

account balance would be amortized over a period to mitigate rate impacts on customers, and any negative balance would be used to offset expenditures recovered in rates over the next five years.

NWIGU proposes a tiered earnings test that would require NW Natural to begin absorbing some costs at its authorized ROE, but would reduce the amount the company has to absorb beyond 50 basis points above authorized ROE, to reward the company for exceptional management efforts.¹³ NWIGU suggests that environmental costs should be allocated between regulated and non-regulated companies of NW Natural before applying its earnings test, to acknowledge that the liability associated with remediation costs is a corporate liability that predates NW Natural. Under this approach, 11 percent of environmental costs would be allocated to non-regulated companies, and 89 percent to regulated operations. After this allocation, NWIGU's earnings test would apply. NWIGU argues all excess earnings produced by NW Natural should be used to credit the amount of remediation costs allocated to retail customers, including WACOG earnings.

Alternatively, NWIGU supports Staff's and CUB's proposals, requiring sharing mechanisms that make it more likely that shareholders will have to bear some of the burden of environmental remediation costs, but still allowing the company an opportunity to earn its authorized ROE.

NWIGU argues that NW Natural's proposed earnings test is unreasonable. Since the company's earnings exceeded 100 basis points over ROE only once in the last decade, if the Commission adopts an earnings test allowing earnings up to 100 basis points over ROE, the possibility that the company would have to share in any environmental costs would be severely limited. NWIGU also notes NW Natural offers no compelling reason for the Commission to adopt the same earnings test here as it does under the PGA mechanism.

e. PGE

PGE intervened in this case to respond to the parties' general policy positions on remediation costs, and notes that the company has been notified by the EPA that it is a potential responsible party for the Portland Harbor cleanup. PGE argues that environmental liability should not be compared to plant decommissioning costs, because environmental liabilities arising from changes in the law and liability cannot be reasonably predicted. PGE notes that the EPA is still making determinations about health risks and remedies, with a large range in liability amounts and how liability is divided among companies. PGE also argues that intergenerational equity principles are not appropriate for dealing with unanticipated environmental liability arising from a later change in law. PGE argues the Commission should allow for recovery of all prudently incurred costs and preserve the opportunity for utilities to earn their authorized ROE.

¹³ Under NWIGU's proposal, if NW Natural earns up to 50 basis points over ROE, 80 percent of the difference between authorized and earned ROE would be credited to the balancing account. If earned ROE is more than 50 basis points over authorized ROE, 80 percent of the earnings between authorized ROE and 50 basis points over authorized ROE would be credited to the balancing account, and 50 percent of earnings over 50 basis points above ROE up to the actual ROE would be credited to the balancing account.

2. *Majority Resolution*

a. *Allocation of Insurance Proceeds*

As we discussed earlier, recognizing that the remediation work at issue here may continue for as long as 20 years, we allocate approximately \$100.3 million of the insurance proceeds for future remediation work, and will apply \$5 million in insurance proceeds to each year moving forward, plus interest accrued on the entire outstanding insurance proceeds balance over the previous 12 months.

b. *Placing Remediation Expenses in Rates*

To further offset deferred costs and help prevent the accumulation of an excessively large deferral balance, we adopt Staff's recommendation to allow NW Natural to use a tariff rider to collect a certain amount of remediation expenses in base rates going forward. We agree with Staff that we should adopt a conservative amount to offset deferred costs, and adopt the higher end of Staff's recommendation—\$5 million. We direct NW Natural to file a compliance tariff to add this rider using sales estimates and allocation factors from docket UG 221, its last general rate case.

c. *Cost Sharing*

We do not adopt Staff's proposal of a 90/10 sharing of costs prior to deferral. We reaffirm our decision in Order No. 12-437 finding that no sharing mechanism will be applied, and conclude that, given that there is limited discretion in the work the company is being required to do, the prudence reviews and application of the earnings test will provide sufficient incentives for NW Natural to minimize expenses.

d. *Earnings to be Reviewed*

All earnings derived from utility assets should be considered in an earnings review unless there is a compelling reason for the earnings to be excluded. Excluding certain categories of earnings does not accurately reflect the utility's overall costs and revenues.

Here, we find no compelling reason why WACOG earnings should be excluded. Under the PGA, NW Natural has a sharing mechanism that allows it to retain a percentage of the difference between the cost of gas forecasted into rates and the actual cost of gas. The effects of this sharing mechanism are currently reflected in the company's results of operations, and should be considered in determining the amount of remediation expenses included in rates. This Commission did not, in adopting the PGA sharing mechanism, commit to exclude any related earnings or losses from an earnings test conducted under ORS 757.259.

We do, however, find compelling reasons to exclude 50 percent of the AMA Optimization earnings. Unlike the purchase of gas—a core utility function with close regulatory oversight—NW Natural's optimization activities are primarily designed to maximize revenues to benefit both customers and the company. As a result, we find that excluding

half of these revenues from the earnings tests will provide proper incentives to the company.¹⁴

Accordingly, we will adopt an earnings test that includes 100 percent of WACOG revenues and losses, and 50 percent of shareholder AMA Optimization revenues. The inclusion of these revenues, derived from ratepayer-supported utility assets, will help ensure that the amount of deferred remediation expenses will result in rates that are just and reasonable.

e. Earnings Threshold

We begin with some preliminary observations about our use of deferred accounting and earnings tests. Deferred accounting is an exceptional form of ratemaking allowing a utility to track one component of costs for later recovery in rates. Deferred accounting is, essentially, single-issue ratemaking, where rates are set based on a change to only one component of costs without considering whether changes to other costs might have offset the increase.

Because we do not undertake a holistic examination of a utility's operations during the deferred accounting process, we use an earnings test to determine whether the amortization of deferred amounts is reasonable. The test ensures that ratepayers are not required to pay deferred expenses when the utility's earnings are high, and that the utility is not required to refund deferred revenues when earnings are low. Thus, the earnings test works to protect both the utility and its customers.

In authorizing the use of deferred accounting, the legislature imposed no particular structure for an earnings test, giving us broad discretion in the design of an earnings test. In exercising this discretion, we use a flexible, fact-specific approach that acknowledges the wide range of circumstances underlying a deferral and the decisions made to authorize this extraordinary rate treatment. An earnings test should be designed to further the purpose of the deferral and consider other relevant factors, such as whether the deferral required sharing of expenses with shareholders.¹⁵ The test must appropriately balance the circumstances of the deferral, the utility's earnings, and the benefits and costs to customers.

Based on the circumstances surrounding this deferral, and given our other decisions related to the amounts deferred and earnings subject to review, we adopt an earnings threshold set at NW Natural's ROE. The company should be required to offset future environmental expenses with any earnings that are above this level.

We find no justification for an earnings threshold above NW Natural's ROE. We agree with CUB that allowing future expenses to be amortized when NW Natural's earnings are

¹⁴ The treatment of optimization profits is currently under review in Docket No. UM 1654. While we do not address how optimization profits should be shared between customers and shareholders in this docket, we do find it appropriate to consider only half of shareholder AMA Optimization revenues in the earnings review applied to remediation costs.

¹⁵ See *In re PGE*, Docket Nos. UE 82, UM 445, Order No. 93-257 (Feb 22, 1993).

above its allowed ROE could give the company a better result than it might have achieved in a rate case. NW Natural's proposed threshold at 100 basis points above its ROE could effectively guarantee the company dollar-for-dollar recovery of its environmental expenses.

We reject NW Natural's claim that an earnings test set at ROE would unfairly cap the company's earnings at ROE for the next 20 years. Initially, we point out that NW Natural will receive at least \$10 million in annual recovery of remediation expenses through insurance proceeds, accrued interest on insurance proceeds, and the tariff rider. Including interest accrued on insurance proceeds, our expectation is that recovery could approach or exceed \$12 million per year. Thus, in any year in which remediation costs are below amounts collected under the tariff rider, insurance proceeds, and accrued insurance interest, NW Natural will fully cover that year's remediation costs with no impact on its earnings. We note that NW Natural had less than \$10 million in remediation expenses in seven of the ten years covered by the past deferrals.

Moreover, NW Natural will retain the ability to earn more than its authorized ROE even in years where expenses exceed the amounts applied through the tariff rider, insurance, and accrued interest on insurance. First, we are allowing the company to defer all expenses, with no required upfront sharing of costs with shareholders. Second, the earnings test will only consider half of NW Natural's AMA Optimization earnings. The overall operation of the deferral and earnings test allows the company to profit from good management, while also recognizing that the utility should not necessarily receive dollar for dollar recovery of the remediation expenses.

f. Implementation

The earnings test will apply as follows. NW Natural will continue to defer its remediation expenses. Each year, we will examine the prudence of those expenditures. We will offset prudently incurred amounts first by applying the amounts collected under the tariff rider. If amounts collected under the tariff rider in any year exceed remediation costs for that year, NW Natural will credit the excess amounts against the SRRM balance. We will then offset any remaining expenditures by applying that year's insurance proceeds and interest accrued on insurance proceeds. If the remaining expenditures in any year are less than the amount of \$5 million in rates and \$5 million, plus interest, in insurance proceeds, then the balance of the insurance proceeds will roll forward to offset the next year's costs.

We will then apply an annual earnings test on the remaining deferred expenses incurred in that previous 12-month period. NW Natural will be allowed to amortize deferred amounts as necessary to bring its earnings up to its authorized ROE. The company will be required to offset each year's environmental expenses with any earnings above its ROE for that year. In examining NW Natural's earnings, we will include 100 percent of WACOG earnings and losses and 50 percent of the shareholder profits from regulated AMA Optimization activities.

NW Natural will recover all amounts subject to amortization through the SRRM we adopted in docket UG 221. That mechanism allows NW Natural to recover the eligible

expenses on a rolling 5-year average basis, with the company submitting a report of remediation activity by July 15 of each year.

g. Review

We will review our decisions regarding the deferral and amortization of future remediation expenses, as well as the treatment of remaining insurance proceeds, in three years, or when NW Natural obtains greater certainty regarding its future remediation costs, whichever occurs first. This will allow us to review how the adopted earnings test is working for the company and its customers, and to consider whether adjustments to the mechanism may be appropriate. We note that there is a broad range in the company's future estimated costs, and the effect to the company and customers will vary widely depending where in the range final costs fall. As a result, it may be appropriate to reconsider portions of our adopted mechanism as the company's estimated costs become more precise. We also note that the EPA and Oregon DEQ's future decisions on matters related to the company's remediation work may affect the company's ongoing estimated costs. The company should notify the Commission, through this docket, of significant changes in its remediation requirements and estimated costs.

3. *Chair Ackerman, dissenting*

I dissent from the majority's decision to cap NW Natural's recovery of expenses at ROE after sweeping in WACOG revenues. I believe the majority's earnings test is contrary to prior Commission policy and will undermine regulatory incentives that benefit the company and its ratepayers.

Prior Commission policy supports an earnings threshold set higher than NW Natural's ROE. As the majority notes, an earnings test must be designed to further the purpose of the deferral. For a deferral like the one at issue here, the Commission recognized that an earnings test could allow the utility to recover amounts to a point above its ROE:

If the deferral was of a cost that was intended to be borne by customers, but was delayed for the purpose of more appropriately matching the cost with related benefits to customers, the earnings test applied might allow the utility to amortize the deferral except to the extent that recovery would cause rates to exceed the top of a reasonable range of return for the deferral period. This approach would allow the Commission to better match costs and benefits without unduly limiting the utility's ability to take advantage of favorable economic conditions.¹⁶

I am not persuaded by the majority's conclusion that, even with an earnings threshold set at ROE, NW Natural could still earn above its authorized ROE if its earnings are high enough to absorb the remediation costs. Even with amounts recovered through the tariff rider and insurance proceeds, the remediation costs subject to deferral will be substantial and will represent a significant amount of NW Natural's annual net revenue. Outside the

¹⁶ Order No. 93-257 at 12.

isolated occasion where NW Natural experiences very robust earnings in a year with lower than average remediation expenses, the company will struggle to earn a reasonable return for the duration of this deferral mechanism.

By adopting an earnings test that caps recovery at NW Natural's ROE, the majority also undercuts the company's incentive to reduce costs between rate cases. As this Commission has explained, "[i]t is expected that the utility will manage its operations to balance and offset unexpected expenses in a fiscal year with operating efficiencies and unexpected revenues in that same year, *with the understanding that the utility keeps all revenues in excess of its expenses in any year.*"¹⁷ This Commission has traditionally embraced this regulatory compact as an important way of encouraging management to reduce costs and to benefit customers through the reduced rates when the lower costs are incorporated in future rate cases.¹⁸ By capping earnings at ROE, the majority eliminates NW Natural's incentive to pursue increased earnings through cost containment and operating efficiencies.

The majority's earnings test also serves to effectively eliminate NW Natural's ability to pursue regulatory incentives related to its commodity costs. NW Natural recovers gas costs through a PGA mechanism, which, among other things, allows the company to receive a portion of gas cost savings in exchange for bearing a symmetrical risk of any cost increases. By including WACOG revenues and losses in the earnings test, the majority has eliminated these incentives. Because the remediation expenses will always likely exceed any share the company receives from WACOG savings, the PGA mechanism, from NW Natural's perspective, is now all risk and no reward. As there is no regulated return on the gas purchasing function, the majority's decision is particularly harmful.

C. Past Environmental Remediation Costs: 2003-2012

We turn to the parties' arguments regarding remediation costs incurred through 2012. After allocating the insurance proceeds equitably across the 30-year estimated period for the environmental remediation project, we are left with deferrals of approximately \$44.2 million for this past period.

We begin with a brief summary of the parties' arguments, followed by the majority's resolution, and Commissioner Savage's dissenting opinion.

¹⁷ *In re Utility Reform Project and Ken Lewis*, Docket No. UM 1224, Order No. 09-316 at 13. (Aug 18, 2009) (emphasis added).

¹⁸ The parties to this case also recognize and accept this policy, as their stipulation, which the majority rejected, made room for the incentive to reduce costs between rate cases, and NWIGU continues to support an earnings test that preserves this utility incentive. *See Joint Testimony in Support of Stipulations* (Aug 7, 2013).

1. *Positions of the Parties*

a. *NW Natural*

NW Natural proposes we adopt an earnings test for past incurred remediation costs with a threshold of 100 basis points above its authorized ROE, and apply that test to the company's earnings for the entire deferral period on an aggregate, not annual, basis. NW Natural contends that applying that test will demonstrate that on average, the company earned below its authorized rate of return. Citing Order No. 93-257, NW Natural states that this earning test is consistent with an earnings test for use in the type of deferral at issue here—to delay recovery to more appropriately match costs and benefits.¹⁹

The company adds that applying an earnings test to annual, rather an aggregate, revenues during the past period is fundamentally inconsistent with the nature of the deferral, which is for costs relating to a single overarching project. NW Natural cites a prior Commission decision in which we applied an earnings test based on a review of the utility's average earnings over a historical 23-year period, rather than "cherry-picking" years in which earnings were higher or lower.²⁰ NW Natural adds that applying an annual earnings test is not a fair balancing of interests under ORS 756.040(1), noting that such a test would disallow up to half the company's earnings in 2013 and significantly impact its financial health.

b. *Staff*

Staff opposes NW Natural's proposed recovery of amounts up to 100 basis points above its authorized ROE. Staff contends that deferred accounting should not be used to allow a utility to recover more than its authorized ROE. Staff notes that the prior decisions cited by NW Natural should not limit the Commission's discretion in this docket. Staff also cites to *Utility Reform Project v. PUC*, 261 Or App 338 (2014), to argue that employing deferred accounting and amortization of deferred balanced to allow a utility to earn more than its authorized ROE is inconsistent with general ratemaking considerations.

Instead, Staff recommends we adopt an earnings test with three key components. First, Staff recommends we examine annual—not cumulative—earnings for each past year (deferred expenses for that year minus apportioned insurance proceeds). Staff explains that, because the company experiences different earnings each year, a year-by-year test will more accurately determine whether ratepayers should bear any expense in that year. Second, Staff recommends that NW Natural should be able to collect all of its prudently incurred costs up to 50 basis points below its authorized ROE. Staff argues allowing recovery up to 50 basis points below ROE is consistent with the goal of deferred accounting—to allow recovery of extraordinary costs that could not fairly be absorbed by the company. Finally, Staff argues the applied earnings test should include WACOG

¹⁹ *Id.* at 12.

²⁰ *In re Idaho Power Company*, Docket No. UE 233, Order No. 13-416 at 12 (Nov 12, 2013).

revenues²¹ and 90 percent of AMA Optimization revenues each year, because NW Natural's WACOG and AMA earnings are directly attributable to regulated operations and, and an accurate and meaningful earnings test should include all revenue attributable to regulated operations.

c. CUB

CUB proposes the adoption of an earnings test with a threshold set at NW Natural's authorized ROE. Like Staff, CUB argues that the historical earnings review should be applied to individual years, not to an aggregate of the company's earnings. CUB notes that the purpose of an earnings test is to determine whether the utility could have absorbed some or all of the deferred amounts, and still have earned a reasonable ROE.²² CUB contends that NW Natural's reliance on our prior decision applying an earnings test to average, as opposed to annual earnings is misplaced, because there the monies subject to deferral did not accumulate through annual requests, and because the company was significantly underearning throughout the entire deferral period. CUB contends that neither factor applies here.

d. NWIGU

NWIGU proposes that incurred costs should be allocated between regulated and non-regulated companies, to acknowledge that the liability associated with remediation costs is a corporate liability that predates NW Natural. Under this approach, NWIGU would allocate 11 percent of historical remediation costs to non-regulated operations, 10 percent to investors, and approximately 79 percent to retail customers.

2. Majority Resolution

We reiterate that the purpose of an earnings test is to ensure that the amortization of deferred amounts is reasonable in relation to the effects on utility earning levels. We have broad discretion in the design of an earnings test, which must appropriately balance the circumstances of the deferral, the utility's earnings, and the benefits and costs to customers.

To determine how much of the \$94.3 deferral balance NW Natural should be allowed to recover, we first apply the allocated insurance proceeds to reduce that amount. As discussed above, we have allocated \$50.2 million to offset remediation costs incurred during this period. After allocating those amounts on a prorated basis given the costs incurred each year, we are left with a deferral balance of approximately \$44.2 million for the past period.

Next, we consider the earnings test that we adopt for future remediation expenses. Applying that test to NW Natural's revenues, on an annual basis, results in the company

²¹ The WACOG incentive has since 2009 been included in the company's results of operations.

²² CUB Pre-Hearing Brief at 8, *citing* Docket No. UE 127, Order No. 01-881 at 8 (Oct 22, 2001).

being allowed to recover just \$13.8 million of the remaining balancing, while having to bear \$30.4 million, or 70 percent, of those expenses.²³

To ensure that the amortized amounts are reasonable and appropriately balance the interests of NW Natural and its customers, we adjust this amount for two reasons. First, we recognize that the unique circumstances of these deferrals warrant reducing the company's share of past environmental costs. NW Natural was required by state and federal regulators to incur these expenses, and it did not have a great deal of discretion over the timing and scope of the remediation project. Moreover, unlike a conventional deferral where the deferral and amortization of amounts occur over a one to two year time period, these deferrals have accumulated over a ten-year period with no amounts being amortized. During much of this period, NW Natural was not permitted to bring a rate case before the Commission.²⁴

Second, an adjustment is necessary to protect NW Natural's long-term financial health. Precluding NW Natural from recovering \$30.4 million of these prudently incurred expenses would have a significant adverse impact. The company's average annual net revenue between 2003 and 2012 was \$80.1 million, and the company's 2013 net revenue was \$81.7 million. A strict application of the earnings test would require the company to write off \$30.4 million—almost 40 percent of its yearly earnings. Such a significant write-off would harm the company's financial position and likely increase its financing costs, which would ultimately be borne by ratepayers.

Considering these circumstances, we exercise our discretion to reduce NW Natural's share of past costs. As we noted earlier, we use a flexible, fact-specific approach to deferrals that recognize the circumstances underlying the deferral and other relevant factors. We find that a cost that could pose significant risk to the company's financial health does not further the underlying purpose of this deferral, which is the efficient management of the remediation work that the company is being required to do. We also find an adjustment is necessary to meet our statutory obligation to balance the interests of customers and shareholders in the course of our regulation.

Exercising our discretion in a manner consistent with our regulatory duties, and in consideration of all of the issues discussed above, we reduce NW Natural's share of past costs to \$15 million. NW Natural will amortize the remaining \$29.2 million through its SRRM.

²³ In applying our future mechanism to past incurred amounts, we make one modification. As recommended by Staff, because the costs in the historical period are known, we allocate insurance proceeds roughly proportionally to the amount of remediation costs that were incurred each year.

²⁴ See Docket Nos. UG 152/UG 163, Order No. 07-426 at 2 (Sept 26, 2007), noting that NW Natural "will not file a general rate case prior to September 1, 2011" except under certain narrow circumstances.

3. *Commissioner Savage, dissenting*

I dissent from the majority's decision to disallow recovery of only \$15 million in past expenses. I would apply the future period earnings test and disallow recovery of \$30.4 million.

I am not persuaded by the arguments to adjust results to provide greater recovery.

First, this deferral does not deserve special treatment because of unique circumstances. All deferrals are unique. For example, as set out in a recent deferral case in docket UE 233, Idaho Power Company received tax benefits from changes in federal accounting procedures—a clear-cut, unique change in government rules that redounded to the benefit of the company. CUB and others argued that due to circumstances the benefits should all flow back to customers. In that case, the majority rightly ignored any arguments about special circumstances and strictly applied an earnings test to determine what amount of the tax benefits should be refunded to customers.

Further, the reasons for the deferral should not be used to arbitrarily modify the results of an earnings test. Under this exceptional form of ratemaking, we use an earnings test as a check on single-issue ratemaking. We are asked to set rates based on only one component of costs. Because we are precluded from a holistic examination to determine whether changes to other costs might offset any increase, we use an earnings test as a proxy. We examine the ability of a company to absorb deferral costs while earning a reasonable return. How those costs came about are not and should not be a consideration in determining how much we should amortize in rates.

Second, the fact that deferrals have accumulated for a long time and that NW Natural could not come in for a rate case for about five years cuts both ways. The lack of any rate proceedings during that period eliminated our ability to investigate NW Natural's operations for potential offsetting cost reductions that could have lowered customer rates. Further, waiting has benefited the company. Using the same fact set and applying the same earnings test (without an adjustment in results for the length of the deferral), the company would have absorbed more costs if it had sought recovery over multiple, short time periods from 2003 through 2012 than it is absorbing in this decision.

Last, I do not believe that a disallowance of \$20 million, \$25 million, \$30.4 million, or even \$38 million, as recommended by Staff, would have a long-run, chilling effect on NW Natural's financial health. It is a one-year disallowance. It is the outcome of a fair and reasonable application of an earnings test we must apply under our deferred accounting rules and laws. It is neither capricious nor precedential. Moreover, I believe we should not try to predict the consequences of our application of a reasoned and well-considered earnings test.

V. ORDER

IT IS ORDERED that:

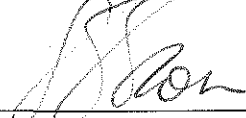
1. The docket UM 1706 stipulation between Northwest Natural Gas Company, dba NW Natural; the Citizens' Utility Board of Oregon; and the Northwest Industrial Gas Users, attached as Appendix A, is adopted.
2. Within thirty (30) days of the date of this order, Northwest Natural Gas Company, dba NW Natural, will submit a filing in this docket demonstrating how it will implement both the historic and the future decisions reached in this order.



Susan K. Ackerman
 Chair



John Savage
 Commissioner



Stephen M. Bloom
 Commissioner



A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM 1706

In the Matter of

NORTHWEST NATURAL GAS COMPANY,
dba NW Natural

STIPULATION

Request for Determination of the Prudence of
Environmental Remediation Costs for the
Calendar Year 2013 and the First Quarter
2014

This Stipulation is entered into for the purpose of resolving all issues among the parties in docket UM 1706, Northwest Natural Gas Company's ("NW Natural" or the "Company") annual report to the Public Utility Commission of Oregon (the "Commission") detailing all activity associated with Environmental Site Remediation Costs from January 1, 2013 through March 31, 2014 to be recovered in NW Natural's Site Remediation Recovery Mechanism ("SRRM").

PARTIES

1. The parties to this Stipulation are NW Natural, Commission Staff ("Staff"), the Citizens' Utility Board of Oregon ("CUB"), and the Northwest Industrial Gas Users ("NWIGU") (collectively, "Parties").

BACKGROUND

2. In NW Natural's last rate case – UG 221¹ –the Commission authorized Schedule 183, attached as Stipulation Exhibit 1, which establishes a mechanism for the recovery of the Company's costs to remediate environmental impacts associated with its historic manufactured gas plants ("MGP"). Specifically, the Commission approved a Site Remediation Recovery

¹ See *In re Northwest Natural Gas Co. Application for a General Rate Revision*, Docket UG 221, Order No. 12-408 (Oct. 26, 2012); *In re Northwest Natural Gas Co. Application for a General Rate Revision*, Docket UG 221, Order No. 12-437 (Nov. 16, 2012). Order Nos. 12-408 and 12-437 can be found online at <http://apps.puc.state.or.us/orders/2012ords/12-408.pdf> and <http://apps.puc.state.or.us/orders/2012ords/12-437.pdf>, respectively.

Mechanism ("SRRM") through which past deferred and future costs would be tracked and included in rates over a five-year amortization period. Stipulation Exhibit 1.

3. Schedule 183 requires the Company to submit an annual report (the "Report") to the Commission detailing, "all activity associated with Environmental Site Remediation Costs, including insurance or other third-party proceeds related to remediation activities recorded in the deferral account through March 31 of the report year". The Report is to be filed on or before, "May 15, 2014, and each year thereafter". Stipulation Exhibit 1. The Report is subject to a review by the Parties and the Commission to ensure that the costs and Insurance Proceeds were prudently incurred.

4. On May 15, 2014, NW Natural filed its first Report with the Commission for the period January 1, 2013 through March 31, 2014.

5. Discovery followed and was reviewed by the Parties.

6. On December 1, 2014, the Parties held a settlement conference. As a result of the settlement conference, the Parties have reached settlement regarding the prudence of the Company's Environmental Site Remediation Costs and Insurance Proceeds in the Report.

AGREEMENT

Prudence

7. The Parties agree that the \$24,742,728 in Environmental Site Remediation Costs spent between January 1, 2013 and March 31, 2014, and the \$113,513,337 in Insurance Proceeds received between January 1, 2013 and March 31, 2014 were prudently incurred costs and settlement receipts, respectively.

8. The Parties further agree that these amounts will be reflected in rates consistent with the Commission's resolution of Docket UM 1635.

General Provisions

9. This Stipulation will be offered into the record as evidence pursuant to OAR 860-001-0350(7). The Parties agree to support this Stipulation throughout this proceeding and any

appeal, provide witnesses to sponsor this Stipulation at hearing, if needed, and recommend that the Commission issue an order adopting the Stipulation.

10. If this Stipulation is challenged by any other party to this proceeding, the Parties agree that they will continue to support the Commission's adoption of the terms of this Stipulation. The Parties reserve the right to cross-examine witnesses and put in such evidence as they deem appropriate to respond fully to such issues presented including the right to raise issues that are incorporated in the settlements embodied in this Stipulation.

11. The Parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any material portion of this Stipulation or imposes additional material conditions in approving this Stipulation, any Party shall have the right to withdraw from the Stipulation, along with any other rights provided in OAR 860-001-0350(9), including the right to present evidence and argument on the record in support of the Stipulation, and shall be entitled to seek reconsideration pursuant to OAR 860-001-0720.

12. By entering into this Stipulation, no Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed by any other Party in arriving at the terms of this Stipulation, other than as specifically identified in the body of this Stipulation. No Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding, except as specifically identified in this Stipulation.

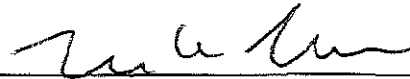
13. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

This Stipulation is entered into by each Party on the date entered below such Party's signature.

SIGNATURE PAGE TO FOLLOW

NW NATURAL

STAFF

By: 
Printed Name: Mark R. Thompson
Date: 12/18/14

By: _____
Printed Name: _____
Date: _____

CUB

NWIGU

By: _____
Printed Name: _____
Date: _____

By: _____
Printed Name: _____
Date: _____

ORDER NO.

15 048

NW NATURAL

By: _____

Printed Name: _____

Date: _____

CUB

By: _____

Printed Name: _____

Date: _____

STAFF

By:  _____

Printed Name: Jessie Jones

Date: 12/18/14

NWIGU

By: _____

Printed Name: _____

Date: _____

NW NATURAL

STAFF

By: _____

By: _____

Printed Name: _____

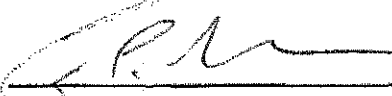
Printed Name: _____

Date: _____

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CUB

NWIGU

By:  _____

By: _____

Printed Name: G. Catherine McEachie

Printed Name: _____

Date: 12-18-14

Date: _____

NW NATURAL

By: _____

Printed Name: _____

Date: _____

CUB

By: _____

Printed Name: _____

Date: _____

STAFF

By: _____

Printed Name: _____

Date: _____

NWIGU

By:  _____

Printed Name: Chad Stokes

Date: 12/19/14